

Message Text

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ORIGIN EB-11

INFO OCT-01 AF-10 ADP-00 L-03 TRSE-00 COME-00 OPIC-12

OMB-01 RSC-01 /039 R

DRAFTED BY EB/IFD/OIA:CNELLIS

8/30/73

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L/EB:DMUIR

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R 302139Z AUG 73

FM SECSTATE WASHDC

TO AMEMBASSY ADDIS ABABA

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E.O. 11652: N/A

TAGS: EFIN, ET

SUBJ: ALICO TAX PROBLEM

REF: ADDIS 9727

1. ALICO COUNSEL O'LEARY CALLED ON DEPUTY ASSISTANT SECRETARY WEINTRAUB AND ETHIOPIAN DESK OFFICER AUGUST 28 TO DISCUSS TAX PROBLEM REPORTED REFTEL. SPECIFICALLY, O'LEARY ASKED USG TO SUPPORT ALICO IN ATTEMPTING TO CONVINCE MINFIN MAMMO TO WAIVE TAX, WHICH HE ESTIMATED AT APPROXIMATELY U.S. DOLS 120,000. O'LEARY SAID ALICO TAX COUNSEL HAD ADVISED THEM IEG HAD NEVER PREVIOUSLY TAXED TRANSACTIONS OF THIS TYPE. THUS, ALICO IN ESTABLISHING VALUE OF PORTFOLIO TRANSFERRED TO ETALICO HAD NOT SOUGHT TO MINIMIZE POTENTIAL TAX LIABILITY BUT HAD GONE OUT OF ITS WAY TO ASSURE THAT ASSETS FULLY AND ACCURATELY EVALUATED. COMPANY WAS CONCERNED, ACCORDING TO O'LEARY, THAT PARTIAL FORCED DIVESTITURE COMBINED WITH TAXATION OF SALES PROCEEDS AMOUNTED TO QUOTE CREEPING EXPROPRIATION

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UNQUOTE.

2. WEINTRAUB ASKED WHETHER OTHER FOREIGN-OWNED LIFE

INSURANCE OR GENERAL INSURANCE COMPANIES FACED WITH ETHIOPIANIZATION HAD BEEN PRESENTED WITH TAX BILLS FOLLOWING CONVERSION. O'LEARY REPLIED ONLY OTHER FOREIGN LIFE INCOME IN YEAR OF CONVERSION AND THUS RECEIVED NO TAX BILL. HE SAID HE WAS NOT FAMILIAR WITH SITUATION OF U.K. AND ITALIAN GENERAL INSURANCE COMPANIES. ANY INFORMATION EMBASSY CAN SUPPLY ON THIS POINT WOULD BE APPRECIATED.

3. WEINTRAUB TOLD O'LEARY USG WOULD SUPPORT ALICO REQUEST TO MAMMO FOR TAX EXEMPTION AS APPROPRIATE. MOST EFFECTIVE MEANS OF ACCOMPLISHING THIS--I.E. BY ACCOMPANYING O'LEARY TO MEETING WITH MAMMO AND/OR BY MAKING SEPARATE LOW-KEYED INTERVENTION BEFORE OR AFTER MEETING--LEFT TO EMBASSY'S DISCRETION. EMBASSY'S REPRESENTATION SHOULD STRESS QUESTION OF EQUITY OF TAXING PROCEEDS OF A TRANSACTION MADE FOR SOLE PURPOSE OF CONFORMING TO REQUIREMENTS OF ETHIOPIAN LAW. FYI: WHILE O'LEARY INDICATED SOME POSSIBLE FLEXIBILITY AS REGARDS TAX ON 30 PERCENT OF TRANSACTION NOT INTERNAL TO ALICO, THIS IS POTENTIAL BARGAINING POINT WHICH COMPANY AND NOT RPT NOT EMBASSY SHOULD RAISE. END FYI.

4. IN RESPONSE TO O'LEARY QUESTION, WEINTRAUB SAID IT PREMATURE TO SAY NOW WHAT FURTHER ACTION USG MIGHT TAKE SHOULD MAMMO UPHOLD ALICO TAX LIABILITY. ONE POSSIBILITY MENTIONED, HOWEVER, WAS FOR SENIOR USG OFFICIAL TO RAISE PROBLEM WITH MAMMO AT BANK/FUND MEETING IN NAIROBI IN LATE SEPTEMBER.

5. O'LEARY PLANNING TO RETURN ADDIS NEXT WEEK AND WILL CALL AT EMBASSY.

6. PLEASE REPORT DEVELOPMENTS.

DECONTROL 5 YEARS FROM DATE OF TELEGRAM. ROGERS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 30 AUG 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973STATE173393
Document Source: CORE
Document Unique ID: 00
Drafter: CNELLIS
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t1973084/aaaaacym.tel
Line Count: 98
Locator: TEXT ON-LINE
Office: ORIGIN EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: ADDIS 9727
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 09 JAN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09-Jan-2002 by kelleyw0>; APPROVED <04 MAR 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ALICO TAX PROBLEM
TAGS: EFIN, ET
To: ADDIS ABABA
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005